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10 September 1959

# CURRENT INTELLIGENCE WEEKLY SUMMARY



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**PART I****OF IMMEDIATE INTEREST****PRELIMINARIES TO KHRUSHCHEV'S VISIT TO WASHINGTON**

In a speech on 4 September at the opening of the Polish exhibition in Moscow, Khrushchev again attempted to ease Western apprehension over Soviet intentions and to prepare the ground for his visit to the United States. Adopting a tone of unusual moderation, he stressed the importance of "peaceful co-existence" and of actions which can contribute to a lessening of world tensions.

Soviet spokesmen, while playing down the possibility that specific agreements will be reached during the Khrushchev-Eisenhower exchange of visits, have stressed the prospects for improved relations. An official at the Soviet Embassy in Berlin remarked that no concrete results should be expected from the visits but said they could prove useful and lead to better understanding. Expressing hope they would in turn lead to a meeting at the summit, he stated that he envisaged such a meeting comprising only the Big Four.

The counselor of the Soviet Embassy in Paris told an American official on 7 September that President Eisenhower and Khrushchev, in order to bring about a "change in atmosphere," should discuss "all issues" but not negotiate details. He expressed the opinion that agreements probably could be reached on cultural and economic exchanges and that progress could be made on disarmament and the control of nuclear weapons. He said an agreement on trade and credit at an early stage of Khrushchev's visit would facil-

itate "political concessions" later. The Soviet diplomat also commented that the "aging" Khrushchev wants to be remembered as the man who, after 40 years of revolutionary struggle, was able to raise the USSR's standard of living and bring about peace and prosperity.

Soviet propaganda has attempted to build up Khrushchev's personal prestige on the eve of his visit. A Pravda article on 8 September asserted that nine out of ten Americans consider the Soviet premier an "emissary of peace" and regard his visit as marking the beginning of a new period in American foreign policy. The article referred to Khrushchev's "immense authority" and declared that Americans want peace and therefore insist that their leaders "listen more often and more attentively" to his voice.

**Concern Over Asian Situation**

The Soviet leaders are showing concern that the Sino-Indian border dispute and developments in Laos will have an adverse effect on Khrushchev's visit. Moscow moved to soft-pedal the dispute between Peking and New Delhi by issuing a TASS statement on 9 September which condemned alleged efforts by "Western circles," especially in the United States, to exploit the dispute as a means of obstructing a relaxation of tension on the eve of the exchange of visits. While deploring the "incident" on the Sino-Indian frontier, the statement carefully refrained from assigning blame to either party and

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underscored the USSR's friendly relations with both countries. The statement said "Soviet leading quarters" are confident that the two governments will reach a peaceful settlement based on mutual interests and the "traditional friendship between the peoples of China and India."

Regarding events in Laos, Soviet diplomats in London and Paris have termed the situation "very untimely" and "most inopportune" from the USSR's viewpoint.

Visit to Peiping

On 4 September Khrushchev announced that he plans to go to Peiping on 29 September, immediately following his visit to the United States, to attend Communist China's 10th anniversary celebrations. The visit--Khrushchev's second since heading the Soviet delegation of the 1954 celebrations--will provide an opportunity for a major public display of intrabloc solidarity.

At the same time, one of Khrushchev's main tasks will be to allay signs of apprehensions of Chinese Communist leaders over the effect which his talks in Washington might have on their international objectives, especially regarding Taiwan. On 7 September a Soviet diplomat in Paris stated that the Chinese are "definitely unhappy" over the Eisenhower-Khrushchev exchange. Despite Peiping's private misgivings, on 9 September Chou En-lai repeated Communist China's official endorsement of the meetings, but this time omitted the call for

an "unremitting struggle" to defeat the West which Foreign Minister Chen Yi made on 15 August.

Khrushchev may also seek to ease some points of ideological differences, such as have arisen over the communes, by reaffirming his recent statement that each bloc country engaged in "building socialism" must take into consideration its "national, cultural, and economic peculiarities." Peiping is likely to press, however, for a strong endorsement of its internal program, some aspects of which Khrushchev has criticized on occasion.

Western European Views

President Eisenhower's trip to Europe evidently confirmed the British conviction that his talks with Khrushchev will further the prospects of peace, and increased the belief in Paris and Bonn that the exchange augurs well for the protection of their interests and for peace.

The West German press, unanimously approving the President's European trip, has stressed that his success in strengthening the unity and determination of the West will enhance his authority when he meets with Khrushchev.

A reliable opinion survey taken in late August reports that 91 percent of the West Germans interviewed were aware of the Eisenhower-Khrushchev exchange, 76 percent feeling it would be good, and 7 percent bad. Most of those questioned believed the President agreed

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to the exchange in the hope it would relax East-West tensions and maintain world peace. While most thought that disarmament would be the main topic covered, the largest number preferred that the President and Khrushchev discuss German reunification. The poll also gave evidence that West German hopes for reunification are fading, however, as the number of persons viewing the chances for unity as "bad" or "very bad" has increased from 52 percent in April 1959 to 61 percent.

The French press has been generally pleased with the results of the President's European trip and remains optimistic regarding his exchange of visits with Khrushchev as a gesture toward prolonging peace. Some papers, however, raise the question whether anything basic in the international picture has really changed. Meanwhile French official circles welcome the formation of the 10-nation disarmament group as permitting the resumption of negotiations in a broad framework--which France has consistently preferred to discussions limited to nuclear disarmament or test bans.

President Eisenhower's European trip strengthened the British people's belief in his sincerity in his search for

peace and their conviction that he is going about it in the right way. The American Embassy in London observes that his visit left Anglo-American relations in a rosy glow and unquestionably enhanced British confidence in the United States' leadership of the free world. The President is credited with the conciliatory tone of Adenauer's reply to Khrushchev and broadcast concerning Poland. Some doubt has been expressed, however, whether the results of the visit to France may not be "too good to be true."

Following Secretary Herter's statement before the North Atlantic Council on 4 September, unanimous support of the American position was tempered with some warnings of the dangers of giving the public the impression that international tension had relaxed. While Belgian Foreign Minister Wigny urged expanding East-West exchanges, including trade, Greek Foreign Minister Averoff opined that the risks of Khrushchev's visits outweigh the hopes, and Turkish Foreign Minister Zorlu similarly advised that popular fears of a Soviet-American detente be kept in mind. Secretary General Spaak expressed members' confidence in the United States but supported the Greek and Turkish warnings.

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**SINO-INDIAN BORDER DISPUTE**

The Sino-Indian border dispute seems headed for the diplomatic conference table, al-

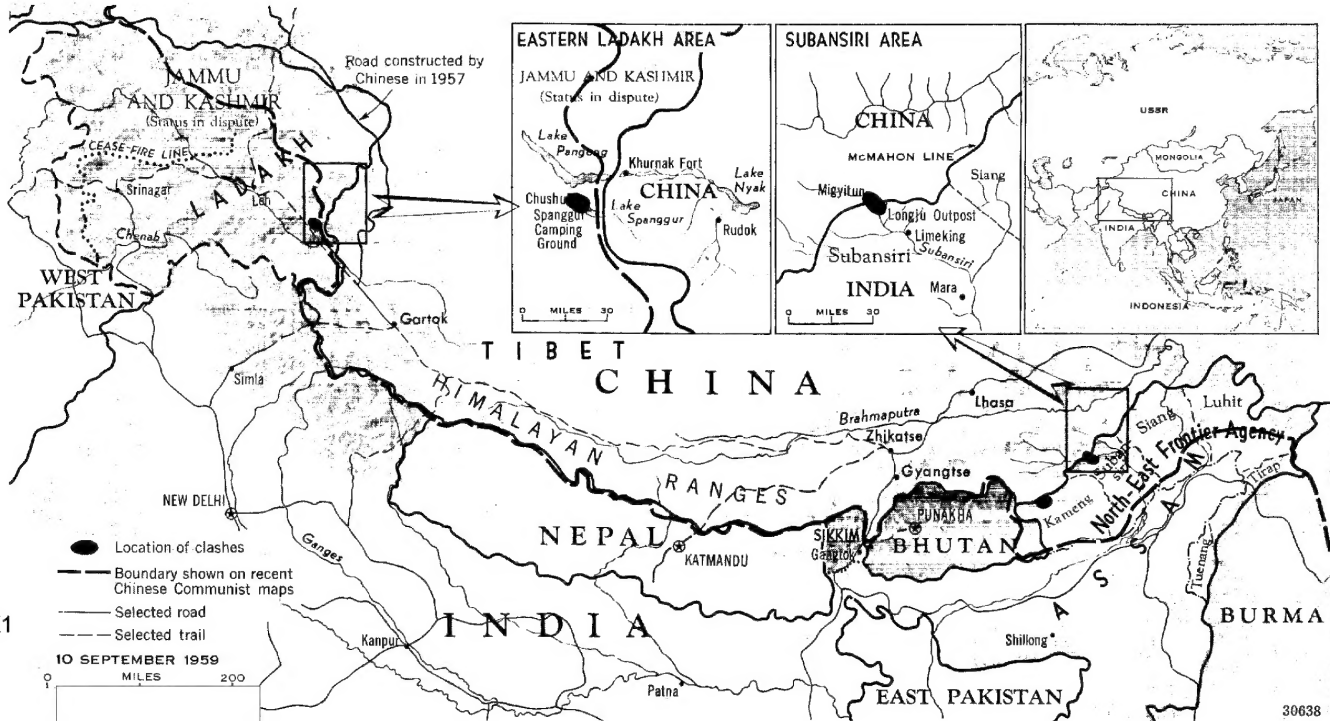
though localized clashes are still possible. While reasserting their territorial claims,

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Peiping and New Delhi apparently agree on the desirability of discussions.

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in Tibet and the Indians then attempt to expel them forcibly.

Following an earlier stiff Chinese Communist diplomatic note accusing India of "aggression," the Indian Government on 7 September publicized the full scope of the Sino-Indian border dispute by issuing a 122-page White Paper documenting New Delhi's case against Peiping. The paper included the texts of a series of Indian protests and Chinese replies on questions of disputed border claims, Tibetan refugee activity, treatment of Indian and Bhutanese nationals in Tibet, and the recent border incursions.

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Nehru has frequently stressed the desirability of resolving certain border questions through diplomatic means and thus will endorse Chou's suggestion for "friendly negotiations." Chou's claims to extensive border areas long regarded as Indian will not be acceptable to New Delhi, which continues to declare that its "internationally recognized" frontier is not subject to negotiation--except for minor modifications.

New Delhi also took steps earlier in September to notify the Soviet and Polish ambassadors formally of its serious concern over Chinese border activity. The Indian foreign secretary apparently informed the bloc representatives that if the incidents were to continue, New Delhi would be forced to reappraise its policy of nonalignment.

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Nehru--heavily committed to defend the McMahon line--is also unlikely to agree to Chou's demand for a withdrawal from all the areas near the line occupied since spring.

The Indian Communist party, already hard hit by Peiping's earlier action in Tibet, has instructed its secretary general to explain personally to party leaders in Moscow and Peiping the even more serious dilemma created by the Chinese incursions into India. The USSR's desire to soft-pedal the dispute was reflected in a TASS statement on 9 September which stressed Moscow's friendly relations with both Peiping and New Delhi and expressed hope that a peaceful settlement would be reached.

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Further localized clashes could occur if the Chinese troops continue to enforce Peiping's claim that Longju is

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**SITUATION IN LAOS**

Widely scattered skirmishing between Laotian Army forces and Communist partisan elements continues in Sam Neua and Phong Saly provinces. The town of Sam Neua apparently remains threatened by Communist forces which crossed the Nam Ma River on 30 August, although the Communists do not appear to have followed up their initial advantage. A Laotian Army patrol was reported to have been attacked recently on the edge of the town's airfield. Almost daily fighting has also been reported at Muong Poua, about 15 miles northeast of Sam Neua town.

The relative absence of contact between the opposing forces in northeastern Sam Neua Province has led Laotian officials to speculate that some of the Communist forces have been withdrawn to North Vietnam. The Laotian Army G-2 emphasizes, however, that this is merely a possibility which remains unconfirmed.

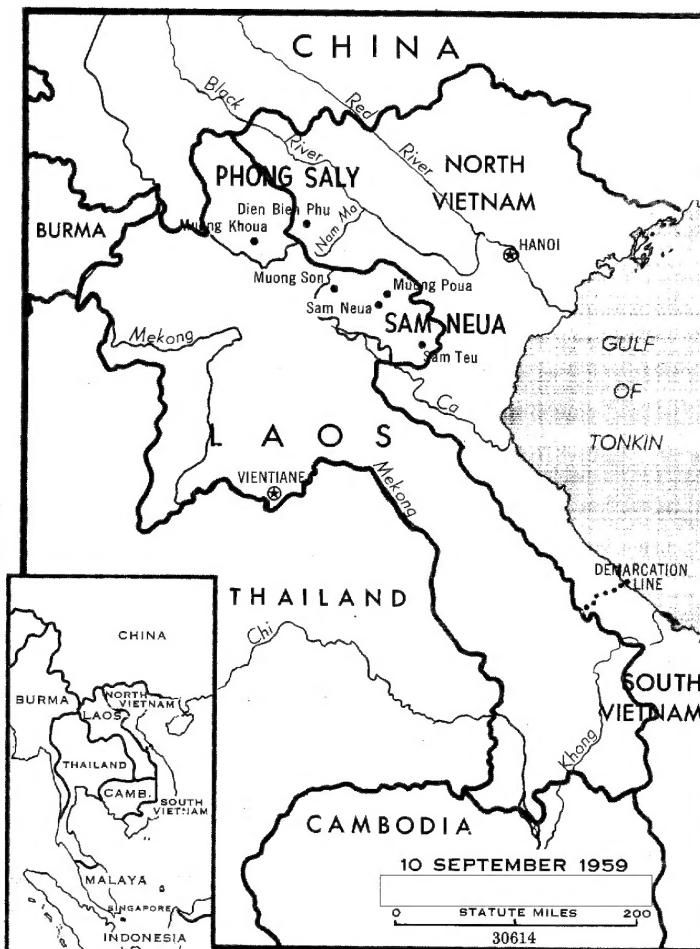
Government sources claim the recapture of Muong Son, in Communist-infested western Sam Neua Province. The Laotian Army's ability to retain the post is problematical. Government forces in the Sam Teu district in the southeastern part of the province are apparently under heavy partisan pressure and

may be forced to attempt a withdrawal.

Partisan forces in southeastern Phong Saly Province, reportedly recently augmented by fresh troops in about battalion strength, have become more active. They appear to have occupied the government post at Muong Poua.

**Laotian Appeal**

The advance contingent of the UN Security Council fact-



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finding subcommittee, created as an alternative to the emergency force Laos requested on 4 September, is due shortly to arrive in Vientiane. It is anticipated that the subcommittee, composed of Argentina, Japan, Italy, and Tunisia, may eventually be expanded to include 15 men from each country. Problems of terrain and weather will seriously hamper their investigations. The group has no authority to make recommendations but will merely report its findings to the council "as soon as possible."

India would take no further initiative on the Laotian problem now that the matter is in the hands of the UN. although India has felt the International Control Commission (ICC) should be reconvened to prevent the situation from deteriorating into open conflict, it was now unlikely that India would make any new move for some time.

**Bloc Reaction**

While the USSR has maintained a solid front with Peiping and Hanoi, the remarks of Soviet diplomats suggest that Moscow is concerned that the Laotian issue will have an adverse effect on Premier Khrushchev's visit to the United States. The Soviet delegate to the United Nations, backed by Soviet propaganda, has charged that "certain circles in the West" are using Laos to "poison" the international atmosphere on the eve of Khrushchev's arrival. Soviet Ambassador Malik on 7 September remarked that the Laotian situation was not only dangerous but

also "very untimely just when the program of high-level visits is taking place and we are all looking forward to a summit meeting."

At the Security Council meeting on 7 September, Soviet delegate Sobolev challenged the legality of the Western resolution, contending that the establishment of a council subcommittee was equivalent to an investigation of the Laotian complaint and that the decision was therefore subject to the veto. Sobolev complained that the creation of a subcommittee would "subvert" the Geneva agreements of 1954.

Soviet propaganda has dismissed the Laotian charge of North Vietnamese aggression as a "lie" and charged that the move to bring the issue to the United Nations was an American maneuver to pave the way for "open interference under the UN flag." Moscow contends that the actions of the Sananikone government have provoked a "civil war" and that now that the government is unable to suppress the "democratic and patriotic forces" in Laos, it has fabricated a "tale of aggression by North Vietnam to open the gates for Western intervention in Laotian internal affairs."

Laos' UN appeal and subsequent Security Council action brought on a flurry of protests from Peiping and Hanoi. The Soviet contention that the Security Council action was illegal was echoed in a North Vietnamese Foreign Ministry statement on 9 September which was strongly supported in a speech by Communist China's foreign minister on the same day. On 10 September, the

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Peiping People's Daily published a long commentary charging that the United States was usurping the name of the United Nations "to engineer a new conspiracy of interference in Laos." Numerous Moscow commentaries and news broadcasts reiterated the Soviet position. Bloc statements during the past week renewed at every opportunity demands for the recall of the ICC in Laos.

A possible new line in North Vietnam's propaganda appeared on 8 September when Hanoi publicized a statement attrib-

uted to the Pathet Lao party, the Neo Lao Hak Zat (NLHZ), which asserted that the only solution to the Laotian problem was negotiation between the parties concerned--the royal government and the Pathet Lao forces. Heretofore, bloc propaganda has proposed revival of the ICC in Laos as the "only" solution to the situation. The new willingness to negotiate on the part of the NLHZ may reflect confidence that the rebellion has achieved sufficient success to provide a basis for negotiation.

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Qasim seemed on the point of striking definitively against them. In contrast to the right-wing victory in elections by the Iraqi lawyers' association, Communists were elected last week as presidents of the journalists' and teachers' associations, after the respective executive committees had agreed on "unity" lists of candidates. The various Baghdad newspapers, however, continue to assault each other bitterly.

**UAR**

The anti-UAR charges appearing in the Iraqi press and radio set off a brief flurry in UAR-Soviet relations last week. On 5 September the UAR's controlled press denounced Soviet "interference" in the UAR's internal affairs; the form of the "interference" has been the reproduction by Soviet bloc propaganda media of material originating in Iraq. The UAR organs threatened to "expose" the Soviet Union by republishing Khrushchev's speech on Stalin. The affair seems to have been a one-shot operation, rather than the beginning of a continuing campaign, and is one more symptom of Nasir's extreme sensitivity to any form of propaganda criticism.

In the general field of UAR-Soviet relations, however, the UAR minister of education has stated that it is now UAR policy to reduce the number of students from Egypt and Syria attending Soviet bloc institutions, and to place as many as possible either in the West or in UAR institutions with Western instructors.

The continuing effusive demonstrations of Kurdish-Arab unity are one symptom of underlying tensions; the government presumably feels that these demonstrations are necessary in order to disguise or mitigate the reality, which remains one of widespread suspicion between the two groups.

The Communists meanwhile are maintaining the softer line they adopted late in July, when

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Yemen

The Imam of Yemen, having vented publicly and privately his irritation over the unsettled conditions that prevailed during his absence in Italy, now appears to be in a calmer frame of mind. Some changes in administration have taken place, and persons involved in the outbursts of violence last May have apparently been punished.

The Qadi Ahmad al-Siyaghi, chairman of Yemen's representative council and perhaps the most eminent individual to suffer the Imam's wrath, fled temporarily to Beihan in the Aden Protectorate, but has since returned and reportedly is again in the good graces of the Imam. Al-Siyaghi is said to have feared the Imam's suspicion of his close relationship with Crown Prince Badr, whose relatively modest attempts at reform proved anathema to the Imam. A shifting of other officials, both civil and military, is probably continuing.

Badr's own status is still somewhat in doubt. Aside from the administrative reform measures, which the Imam interpreted as a tacit and unallowable admission that something was indeed wrong in Yemen, Badr's seemingly weak methods of dealing with tribal and military dissidents obviously infuriated his father. There is some evidence also that Badr's reliance on the Egyptian mission in Yemen alarmed the xenophobic Imam. The Imam, however, has taken no action toward the Egyptians.

Badr, meanwhile, has probably been stripped of all real authority, although the Imam seems still to consider the

crown prince capable of being reshaped in his own image and thus serving as his eventual successor.

Jordan

The general security situation in Jordan has improved, and the position of King Husayn's government appears superficially firmer now than it has seemed for some time. During a mid-August tour of West Jordan, where the Palestine refugee population is concentrated and where opposition to the Amman monarchy is normally considerably stronger than elsewhere in the country, Husayn and Prime Minister Majalli were given warmer receptions than observers had expected.

While part of this improvement results from Majalli's efforts to conciliate old opponents of the government, most of it stems from the recent rapprochement between Jordan and the UAR. Earlier orders from Cairo telling Jordanian political refugees in Syria to suspend activity reportedly have been reinforced, along with a suggestion that some of the emigrés might return to Jordan and reconcile themselves to Husayn.

Opposition political groups within Jordan, notably the Jordanian Baath party and the Communists, have been weakened organizationally by the long period of repression under former Prime Minister Rifai, and their morale has suffered from the setbacks which fellow Communists and Baathists have received at the hands of Nasir in neighboring Syria. The domestic opposition is merely muffled, however, and the government's

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reliance on British and American assistance and advice remains basically unpopular with most groups.

Moreover, the factionalism and personal rivalries which afflict the Jordanian Army and the civil government seem un-

abated, and the current trial of the former army chief of staff, one of Jordan's ablest officers, on charges of treason could create new feuds as well as dim the prestige of the government by having army and palace dirty linen exposed in the courtroom.

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**BRITISH SEEK WAYS TO BOLSTER CENTO**

London believes the Shah of Iran requires more support through the Central Treaty Organization (CENTO)--the former Baghdad Pact--and is therefore advocating various measures to give the alliance an appearance of greater vitality without imposing any drain on the British exchequer.

Since Iraq's withdrawal, British officials have viewed the pact essentially in terms of its usefulness in strengthening Iran. The British consider Iran "of direct and great" importance to themselves, citing it as a major non-Arab source of oil and as an important link in Britain's air communications with the Persian Gulf and the Far East. Foreign Office Deputy Under Secretary Sir Roger Stevens, a former ambassador to Tehran, has expressed London's general pessimism regarding Iran and fear that the country might go neutralist if the Shah does not receive the material and moral support he deems necessary.

London does not appear ready to increase its own modest material support to CENTO. The British do not plan to increase

their military aid--mainly for the building of radar installations--beyond the present \$1,400,000 annual figure. Similarly, London plans to continue its present level of economic support--including the principal backing for the pact's nuclear center--at about \$2,200,000 a year. The British assert that, in any event, greater economic aid probably would not have the desired political effect.

Looking toward the CENTO ministerial council meeting in Washington in October, Britain is backing other measures designed to impress the Shah. While opposed to establishing a command structure with the Shah as commander in chief, London might favor setting up a CENTO air command.

Britain also urges CENTO contingency military planning covering USSR-incited aggression from Iraq and Afghanistan. The British believe that there is little risk of such aggression in the next few years, but consider that Iranian and Pakistani military forces would be useful only for "local" wars, and that in any event such

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planning might reassure the Shah. The British think it might be useful to establish a NATO-like annual review procedure to emphasize balance in economic and military capabilities.

The Foreign Office is also considering whether any additional bilateral British-Iranian assurances of mutual support, along the lines of the US-Iranian bilateral agreement of March 1959, might not prove beneficial.

**STATUS OF BLOC ECONOMIC ACTIVITY IN YEMEN**

The Sino-Soviet bloc, which since 1956 has extended about \$30,000,000 in military aid and more than \$40,000,000 in economic assistance to Yemen, is persisting in its efforts to implement the various projects called for under the aid programs, despite a general lack of cooperation on the part of the Yemeni Government. While offers of bloc aid originally were favorably received and in some instances even solicited by Yemen, bloc attempts to carry out the projects have been hampered by traditional Yemeni apathy and xenophobia.

Almost 800 bloc "economic technicians," about 700 of them Chinese coolies and engineers, are in Yemen now

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Czech technicians are working on a number of projects in Yemen, including an airfield at Sana, Soviet specialists are progressing with the port development project at Ras al Kathib, and the Chinese are continuing to work on the new road from Al Hudaydah to Sana. Communist China presented a gift of 10,000 tons of wheat this past summer, and bloc economic missions reportedly offered this spring to establish industrial enterprises, including a textile factory in Sana and a cement plant.

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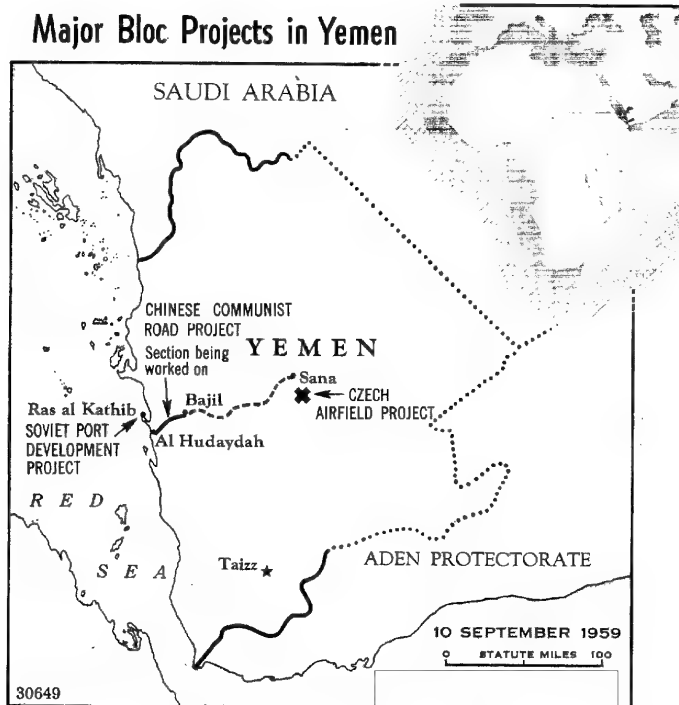
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In addition, Moscow may be attempting to revitalize its military aid program in Yemen. There about 75 bloc military specialists in the country attempting to train Yemeni personnel in the use of bloc arms, which for the most part have thus far gone unused. As yet no Yemeni military personnel have been sent to the bloc for training.

The exact terms of repayment for bloc economic aid are not known, but it is believed that Yemen is not required to make any payments in hard currency. Bloc military aid--which apparently carries a two-thirds discount--is to be repaid in Yemeni agricultural exports, but thus far there has been little evidence to indicate that the Yemeni Government has made any serious attempt to fulfill its commitments.

Bloc leaders, despite the difficulties involved, persist in attempting to carry out their programs in Yemen because of the prestige value they attach

to economic and military aid, as well as to encourage anti-Western tendencies. Furthermore, bloc officials presumably hope to exercise some influence on the internal Yemeni situa-

**Major Bloc Projects in Yemen**

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tion when the Imam dies, as well as to establish a position from which the bloc can later exploit nationalistic movements in Aden and Oman. (Prepared by ORR)

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**PEIPING ATTACKS ITS DOMESTIC AND SOVIET CRITICS**

Mao Tse-tung and his top lieutenants have been stridently defending their past and present domestic policies against criticism from several quarters, including the Soviet Communist party. They have

warned their comrades to stop criticizing and get to work, and they have in effect told Moscow that Peiping will continue to follow its own "road to socialism." Mao apparently intends to underline his point

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by punishing some party leaders below the politburo level.

A series of editorials in the party press has reflected the shortfall in the "leap forward" in 1958, the downward revision of 1959 goals, and the latest modification of the commune program, all announced in late August. The positions being defended in these pronouncements are primarily those of Mao and the "party-machine" leaders, including Mao's heir apparent, Liu Shao-chi, and the party secretary general, Teng Hsiao-ping. The articles are intended to conceal the extent of the dominant group's previous miscalculations, to find a scapegoat for them, and to reanimate the party cadres for a new production effort.

The line of defense taken by the dominant leaders has been to insist on the "complete correctness" of their programs as conceived, as well as to insist that they themselves took the initiative in repairing the "errors and shortcomings" in implementing their programs. Mistakes are said to have derived principally from the unprecedented scope of the programs.

The editorials take the offensive at several points, primarily against "right opportunists" within the Chinese party--and, by implication, within the Soviet Communist party. "Rightist opportunists," it is repeatedly said, have failed to understand the potential of mass movements like the "leap" and the commune program, have not done their best, have minimized accomplishments and exaggerated problems, have discouraged initiative and enthusiasm and encouraged lethargy and pessimism, and indeed "have lost faith in the whole undertaking."

It is plausibly implied in some editorials that the rightists in China have been buttressing their positions with citations of Soviet experience and of Soviet attitudes toward the radical Chinese programs. Moscow had seemed embarrassed by the preposterous claims made for the "leap" and had given them little publicity; the Soviet party was clearly hostile to the ideological claims made for the commune program; and Soviet spokesman, including Khrushchev, had publicly and privately criticized the commune concept. The arguments attributed in Peiping's comment to opponents of the communes are similar to those made in articles by Soviet theorists.

One editorial emphasized that the Chinese people have been making remarkable progress under "their own party" and "their own leader." The Chinese party leadership--under the "great leader" Mao--is presented as a true Marxist-Leninist leadership which exploits to the fullest the potential of mass undertakings, in "direct contrast" to an "opportunist" type of leadership.

Further in this vein, the Chinese leadership, far from being guilty of "fanaticism," as hostile observers assert, is said to know well that there are not "ready patterns for everything." Soviet experience is available for "reference and study" and is "important...but" the Chinese party in "building socialism" is faced with special conditions--a backward agrarian economy and a huge population. The problem of integrating Marxist-Leninist doctrine with Chinese conditions has been "solved" by Mao--e.g., the "leap" and the commune program.

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Peiping's threats against the "right opportunists" in the Chinese party have been ambivalent. Some statements offer the rightists the hope of redemption. Other formulations treat them as already lost--as having joined "enemy elements" and as having engaged in "criminal activity."

Both lines seem to be accurate pointers. That is, most of the "right opportunists," by seizing the opportunity to move to the left, will probably be saved. Others, however, have probably already been marked for punishment, and more will fall as the party leaders continue to exhort the party to "go all out."

The chances are that the party leadership will begin to select its scapegoats at the provincial level, as in 1957-58, when several provincial leaders were purged for a similar lack of confidence in and

enthusiasm for the party's basic programs. If action at this level does not stop the criticism and restore morale--as it probably will not--it is likely that higher level figures will be toppled.

Mao apparently does not intend to reach into the politburo. Those politburo members who have been to the right of Mao and the party-machine figures in recent years--senior administrators and economic specialists--nevertheless agreed with the dominant leaders that a period of rapid progress was ahead, apparently viewed the "leap" and the commune program as worthwhile experiments, and seemed to be trying their best to implement the programs. Moreover, although they may continue to have reservations about Mao's programs, they probably will again cooperate in Mao's effort to save face.

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**COMMUNIST CHINA RELEASES PRODUCTION RESULTS FOR FIRST HALF OF 1959**

Despite Peiping's professed satisfaction with the economic situation at the end of June 1959, production figures for the first half of the year indicate that the "continued leap forward" planned for 1959 has not succeeded. The regime's decision to reduce targets set forth in the original 1959 national economic plan probably results largely from this failure, as well as from a realization that there is little prospect for a noticeably faster rate of progress in the second half of the year.

The total value of industrial production at the end of June was only 44 percent of the year's goal, whereas 47-48 percent is ordinarily fulfilled by the end of June. Only 19

of the 33 principal industrial targets for 1959 were fulfilled by 40 percent or better. The 14 major industrial products for which fulfillment was 30 percent or less included steel, cement, sulfuric acid, power equipment, locomotives, and rolling stock. The products in which the poorest showing was made were those most important to development in the building, transport, power, chemical, and consumer-goods industries.

Faced with industrial production levels which in no way approached earlier plans for the "continued leap forward" in 1959, with overworked and badly maintained equipment, and with shortages of raw materials which preclude greater increases

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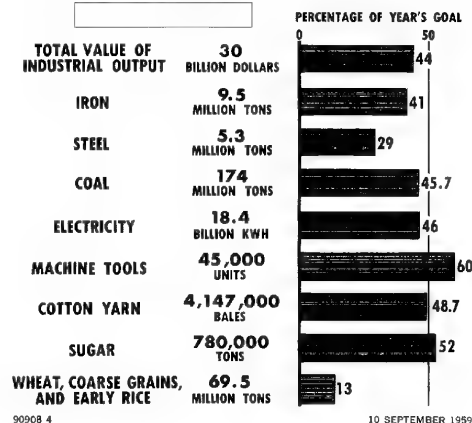
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in the second half of the year, Peiping had to reduce annual targets to a level more nearly approximating feasible rates of development.

The performance by agriculture was even less satisfactory. Whereas the summer grain harvest normally accounts for 30 percent of total annual output, the 1959 output of winter wheat, winter coarse grains, and early rice was only 13 percent of the original 1959 target. Target revisions, based on greatly reduced figures for 1958 grain production, bring the summer crop to 27 percent of total grain output for the year. Regardless of statistical juggling, the 1959 summer harvest constitutes only a 2-percent increase over last year's officially claimed summer harvest. With adverse weather conditions dimming prospects for any sizable increase in the fall harvest, even the much-reduced grain target appears to be out of reach.

The downward revision of production targets for the end

of 1959 makes the levels reached during the first half of the year noticeably more presentable. It will also remove the burden of impossible targets and enable the regime, on the occasion

**COMMUNIST CHINA'S PRODUCTION  
IN FIRST HALF OF 1959**

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of its 10th anniversary on 1 October, to place its achievements in industrial and agricultural production in a better light.

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**COMMUNIST CHINA PREPARES TO ENTER INTERNATIONAL MARITIME TRADE**

Except for occasional voyages down the South China coast to North Vietnam, Communist China still uses foreign-flag merchant ships to carry its overseas trade. Renewed purchases of ocean-going vessels from the West, however, plus a stepped-up program of domestic shipbuilding and training of merchant marine crews, suggest that Peiping is preparing to enter international maritime trade on its own.

Since the beginning of 1958, 27 vessels suitable for operation in overseas trade have been added to the Chinese merchant

marine. Sixteen of these were purchased from Western countries, increasing total merchant tonnage by 100,000 tons, or more than 25 percent. In addition, six major vessels were purchased from bloc countries last year and another five were produced in Chinese shipyards. These acquisitions increase by 37 percent the total tonnage of the Chinese Communist merchant fleet, which now stands at about 375,000 gross tons and includes 113 vessels. At present, all these vessels are engaged in trade along the China coast.

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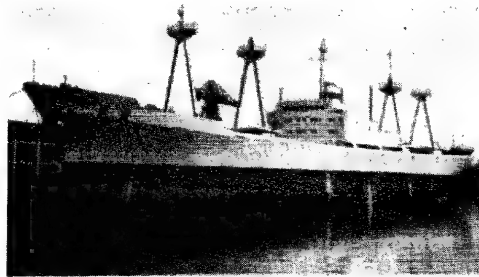
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Sometime last year, another Chinese merchant shipping agency was created--the Ocean Transport Bureau. This organization has been developing a maritime training program and promoting domestic construction of ocean-going vessels, apparently in furtherance of plans to develop a merchant fleet capable of engaging in international trade. Organizations already exist for all other phases of foreign shipping operations.

In conjunction with the establishment of the Ocean Transport Bureau, there has been increased recruiting of Chinese for service in the merchant fleet. For years small numbers of Chinese have been gaining experience aboard Polish ocean-going vessels. Plans to enter the Chinese Communist merchant fleet in international trade may thus be contingent on the availability of sufficient trained crews.

Peiping has an ambitious domestic construction program

calling for five large vessels to be finished by the end of 1961. One of these--the 12,000-gross-ton "Leap Forward"--should be completed in the near future,



Communist China's 12,000-gross-ton freighter Leap Forward

and two others sometime in 1960. Launched at Dairen last November, the "Leap Forward" is the first vessel of this size to be built at a Chinese shipyard. It should be prepared to go to sea within the next six months and quite possibly will be the Chinese vessel nominated to make the initial venture into international trade. (Prepared by ORR)

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**NEW SOMALI NATIONALIST MOVEMENT**

The formation on 30 August of a Pan-Somali Nationalist Movement (PNM) by nationalist leaders representing ethnic Somali inhabitants of five political entities in the Horn of Africa--the Italian Trust Territory of Somalia, the British and French Somaliland enclaves, northern Kenya, and Ethiopia's eastern province of Ogaden--will produce a sharp reaction from Addis Ababa and probably will contribute to a further deterioration in Ethiopian-Somali relations.

The PNM was formulated in Mogadiscio by a preparatory com-

mittee headed by Mahmoud Harbi, former prime minister of French Somaliland who was removed by Paris. The movement's announced goals are to achieve unity and independence for all Somali territories "by peaceful and legal means," to abolish tribalism, and to establish and maintain close relations with other African peoples and with the Moslem world.

Somalia's governing party --the Somali Youth League (SYL) --in an attempt to re-establish its dwindling prestige, recently withdrew its support for continuing the territory's trusteeship

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status until December 1960 in favor of independence "as soon as possible"--a popular issue among politically conscious Somalis. As a follow-up to this action the Somali Government now is supporting the PNM, apparently hoping to further enhance its popularity and at the

planned pan-Somali conference in late 1960, as well as for the location of the movement's headquarters.

The PNM and Mogadiscio's support for the movement are certain to be denounced in neighboring Ethiopia, where some

350,000 Somalis live.

Addis Ababa, which has long sought to establish hegemony over the Somali territories, has warned it will resort to arms to protect its Ogaden Province, and it recently activated a frontier guard to patrol the Somali border area. Ethiopia demonstrated its extreme sensitivity over the prospect of even limited Somali unity last February when Addis Ababa's controlled radio and press bitterly attacked the United States for supporting London's decision to permit a future association between the British protectorate and Somalia.

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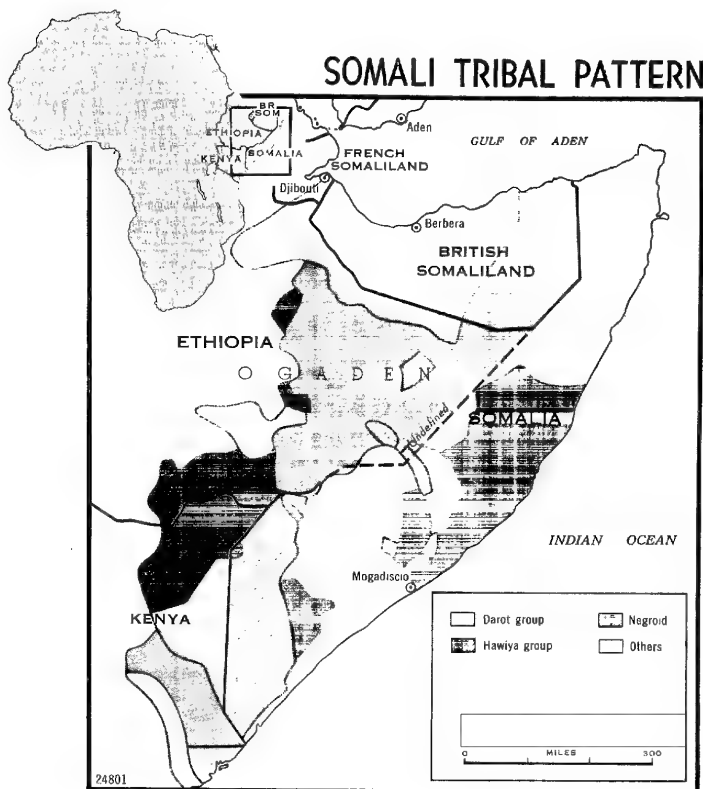
While Somalia remains friendly toward the United States, Ethiopia's relations

with the West have become further complicated by the apparent softening in Addis Ababa's attitude toward the Soviet bloc. Meanwhile, Somalia's expected request to the UN for earlier independence and its support for the PNM may soon lead to pressure on the United States from both Mogadiscio and Addis Ababa for support of their respective interests.

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same time to restrain the movement's more extreme leaders.

The nationalist conferees were permitted use of the legislative assembly building in Mogadiscio for the preparatory committee sessions, which leading members of the government--including the prime minister--attended. The controlled press in Mogadiscio devoted extensive coverage to the nationalists' activities, and Mogadiscio has been selected as the site for a

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**BELGIAN CONGO PROBLEMS**

The Belgian Congo's growing economic and political problems have become a matter of increasing concern to Brussels. On 3 September liberal-minded Minister of the Congo Maurice van Hemelrijck resigned because the government refused his plan for speedier political reform in the Congo. His resignation may arouse an adverse reaction among Congolese political groups who regard him as their spokesman in Brussels, and it could have important repercussions in Belgium by giving the opposition Socialists an opportunity to attack the coalition Catholic-Liberal government.

Since the race riot in Leopoldville last January, Belgium has been confronted with serious problems in the Congo arising both from economic difficulties and from increasing African political agitation. The mineral-rich colony has been hard hit by the low world prices of primary commodities, and for the first time Brussels will have to give the Congo budgetary assistance. Investors' confidence in Congo stocks has been so shaken by the political situation that the value of those stocks has dropped over 25 percent in the Brussels financial market.

Brussels' announcement last January of a program of political reform for the Congo--which envisaged the early establishment of an autonomous state with increasing legislative and executive powers and eventual independence--has led to the formation of a spate of Congolese political parties often based on tribal or regional loyalties. Many of these par-

ties have become critical of Belgium's gradual program and have demanded a speed-up in the Congo's preparation for independence. Several nationalist leaders have been arrested, and the acting governor general recently described the political situation in the Congo as "very grave."

In the forefront of the political agitation is Joseph Kasavubu, the African leader of the lower Congo valley area. He is opposing Belgium's policy of a unified Congo state by seeking to create a regional tribal state with its own executive. He has called for elections in late fall to select its officers, demonstrating his considerable hold over his tribal group by initiating a successful regional boycott of recent municipal council elections. These were designed as the first step in Brussels' program for the creation of Congolese consultative institutions.

Faced with the deteriorating situation, Van Hemelrijck in late August asked the Belgian cabinet to speed up the pace of reform by establishing a Congolese government and legislative council in March 1960. The cabinet refused to accept his program--particularly the grant of legislative powers--and Van Hemelrijck submitted his resignation. The cabinet adopted a compromise plan, and a Congo expert, Auguste de Schryver, was appointed the new minister. Although he is a supporter of Van Hemelrijck, De Schryver is considered more moderate in his actions than his predecessor and may be able to deal more successfully with the diverse political elements in Brussels.

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**ALGERIA**

De Gaulle has announced he will make a public statement of his policy toward Algeria on 16 September, the day after the UN General Assembly convenes.

Algerian rebel officials, in reacting to press reports that De Gaulle will outline a program providing autonomy for Algeria, have indicated annoyance that such a program might be "imposed from above," i.e., implemented by France. Algerian representatives at the Arab League conference in Casablanca state flatly that there can be no cease-fire in Algeria without prior negotiations between the French and the insurgent National Liberation Front (FLN). The rebels probably feel that their capability for military and terrorist activity gives them a veto over any unilaterally imposed French program in Algeria, and that eventually the French must negotiate with them.

The military in Algeria are reportedly reassured by De Gaulle's continued commitment to pacification. They continue to act as a brake on any policy statement which implies acceptance of independence for Algeria, and any proposal of a liberal solution in De Gaulle's statement will probably be carefully blurred to retain the army's confidence. France's ranking soldier, Marshal Alphonse Juin, warned publicly on 5 September that there must be no "appeasement of the US" in any new plan for an Algerian solution. Meanwhile, however, De Gaulle and the cabinet on 9 September replaced Army Chief of Staff Henri Zeller, who has been identified in the press with the "hard line" on Algeria, by General André Demetz, re-

portedly a "nonpolitical" officer.

Two Algerians, self-appointed intermediaries between Paris and the rebels, have reportedly discussed with rebel leaders a statement of principles the intermediaries hope would be mutually acceptable and which might be issued prior to any cease-fire talks.

In the proposed statement the two parties would agree that the Algerian people have a right to self-determination; that a military solution is impossible; and that following a cease-fire Algeria would be administered by an "interim administration" acceptable to both sides which would prepare for voting on Algeria's future status. The unlikelihood of French acceptance of any such plan, however, is underscored by Premier Debré's vigorous repudiation on 8 September of any political negotiations and particularly of any "Algerian state."

The rebels have long favored a negotiated settlement of the war, and individual leaders have indicated that self-determination might be an acceptable alternative to independence. The rebels, however, will almost certainly demand some status for the FLN, despite De Gaulle's emphasis that it does not represent the Algerian people.

French pressure on rebel military forces within Algeria continues, and rebel strength now is confined largely to areas in northeastern Algeria where the French are concentrating their major military effort.

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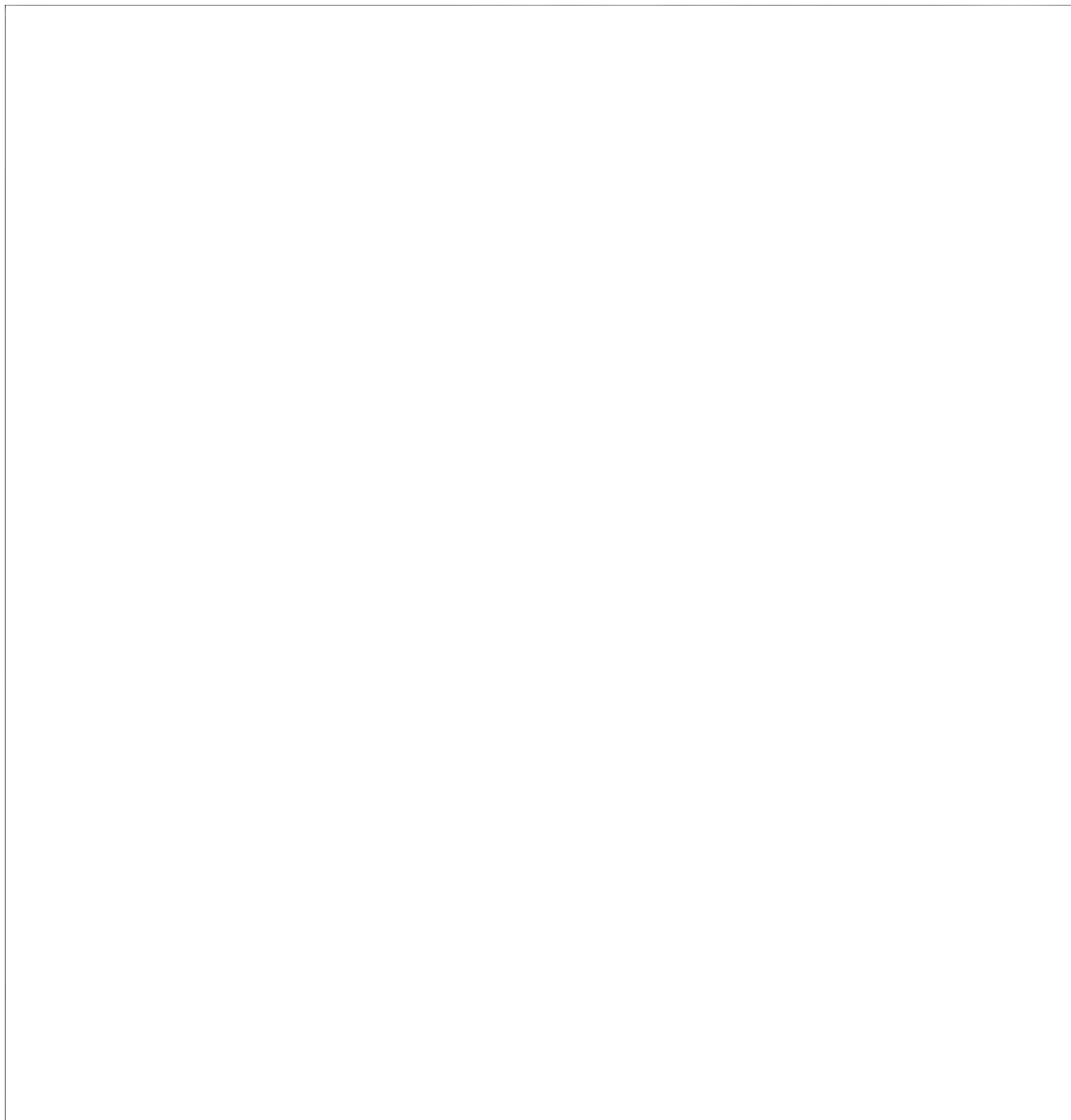


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**FOUR SATELLITES PROMISE BIG HOUSING PROGRAMS**

Czechoslovakia, East Germany, Hungary, and Poland, possibly taking their cue from the very high priority being given housing in the USSR, recently have announced long-term housing plans vastly more ambitious than any in the past. If fulfilled, they will do much to reduce critical housing short-

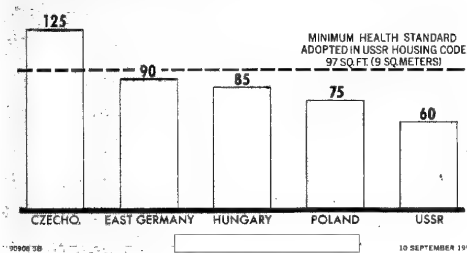
ages arising from wartime damage and years of neglect. Bulgaria and Rumania may soon follow suit. Underlying the plans is a desire to reduce the embarrassing contrast of satellite housing to that in Western Europe, to lessen popular dissatisfaction, and to improve worker performance in key industrial areas.

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Success of these plans will depend on a willingness greatly to expand investments in housing despite sharp competition for scarce investment

**LIVING SPACE PER CAPITA IN USSR AND FOUR EUROPEAN SATELLITES, 1959**  
(SQUARE FEET)



resources from heavy industry and other sectors of the economy which in the past have enjoyed much higher priorities. The first tests of the sincerity of the four satellites in this will come in East Germany and Poland, which plan substantially higher rates of housing construction during 1959-60 than they have ever achieved.

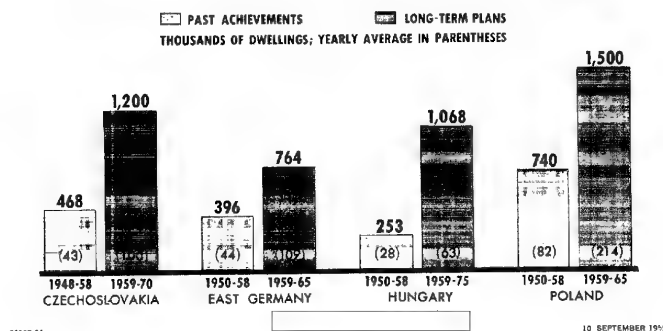
East Germany's claim that its housing shortage will be eliminated by 1965 is greatly exaggerated, but the problem could be solved by 1970. Headway will depend to a large extent on the future course of emigration to the West. Fulfillment of the Czechoslovak 12-year program should greatly reduce the housing problem there.

In Hungary and Poland, despite the new programs, further

deterioration of the housing situation seems inevitable during the next few years. Hungary's plan would not eliminate the housing shortage even by 1975, as official propaganda alleges, but appreciable headway will probably have been made by then. Under its plan, Poland should stabilize its housing situation by the early 1960s and then gradually diminish its huge shortage during the late 1960s and early 1970s.

The satellites will rely heavily on expansion of housing construction by industrial enterprises and tenant cooperatives. This locally sponsored scheme for construction, still relatively untried, has the dual advantage of reducing government expenditures for housing and of increasing the amount of property in the "socialist sector" as

**HOUSING CONSTRUCTION IN FOUR EUROPEAN SATELLITES**



opposed to that privately owned. At the same time, blame for unfilled plans can be avoided by the regimes. As under past housing plans, priority is assigned key industrial areas, where improvements in housing will most directly aid economic growth. (Prepared by ORR)

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**ARMY PRESSURES ON ARGENTINE PRESIDENT**

The immediate threat of revolutionary action in Argentina was dispelled on 4 September when President Frondizi acceded to army demands for changes in top command posts. Frondizi's action, however, strengthened that army faction seeking greater influence on executive policy, especially regarding the Peronistas and Communists. Threats of force from dissident army elements, intended mainly to oust the war secretary, apparently alarmed high navy and air force officers, who feared civil war.

The difficulties were precipitated by the army commander in chief, Major General Carlos Toranzo Montero, who ordered changes in several key army commands without clearing them with War Secretary Anaya. His dismissal by Anaya on 2 September prompted strong enough protests to indicate that Toranzo Montero had majority support among key army commands. On 3 September, therefore, he established a "rebel command" in a Buenos Aires army school to demand the ouster of Anaya but not of Frondizi, a personal friend. Important outlying garrisons offered support.

A truce was negotiated on 4 September, Toranzo Montero was reinstated in his post, Anaya resigned, and Major General Rodolfo Larcher, a prominent intermediary in the negotiations, was named war secretary. Larcher, retired in 1957, has an antinationalist

anti-Peronista background which should please the Toranzo Montero partisans, who considered Anaya too conciliatory toward the nationalists and Peronistas.

Changes in other posts, especially those held by several generals who did not support Toranzo Montero, are also under way. Minister of Economy Alvaro Alsogaray, however, has denied reports that he too might resign in view of his earlier strong criticism of Toranzo Montero's action as damaging to Argentina's prestige and jeopardizing the success of the US-backed stabilization program.

Air Force Secretary Abraham, who had assured Frondizi of air force support if needed to defend the President against rebel action, has subsequently offered his resignation, which has thus far been refused. The navy remained aloof

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Frondizi's capitulation to strong army pressure damages his prestige and increases his vulnerability to future pressure, especially since it follows similar disputes with the army and navy in June and July. The incident is also a further blow to discipline within the armed forces, whose support is especially necessary in view of popular unrest over economic difficulties.

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**CARIBBEAN DEVELOPMENTS**

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Cuba and Venezuela have apparently turned to economic warfare in their continuing effort to oust Dominican dictator Trujillo.

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On 24 August, Venezuelan labor unions joined Cuban labor in a communications and transportation boycott of the Dominican Republic. The Venezuelan and Cuban governments clearly sympathize with the boycott, which may have been instigated by the Cuban Government. The Cuban press reported on 2 September that travelers with passports visaed by the Dominican Government would be barred from Cuba.

In Haiti the weak Duvalier government is anxiously awaiting the arrival of the Inter-

American Peace Committee, which was strengthened by the American foreign ministers' conference in Santiago last month in the hope that it would become an instrument in ameliorating Caribbean tensions. Although the small rebel group that landed in Haiti from Cuba on 13 August has been liquidated, the Haitian regime fears further involvement in the Cuban-Dominican struggle. Cuban officials, including Castro himself, condemned the Duvalier regime as "immoral" and pro-Trujillo following the departure on 30 August of the entire Cuban diplomatic mission from Haiti.

Within Cuba, although there appears to be no well-organized anti-Castro resistance of appreciable strength at this time, sporadic acts of violence by isolated antigovernment groups continue.

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**COMMUNAL PROBLEMS ENDANGER STABILITY IN MALAYA**

The national elections in Malaya on 19 August reflected a continuing trend toward polarization of voting along racial lines which, if not halted, may eventually destroy political stability in this two-year-old democracy. The ruling Alliance party, a moderate pro-Western coalition of three communal organizations, now is the only

party which seriously advocates and attempts to implement its policy of interracial political cooperation--a policy essential to stability in Malaya, where slightly less than half the people are Malay, 37 percent are Chinese, and 11 percent are Indian.

A decline in the popularity of the Alliance was reflected

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in the August elections. While the Alliance won 73 of 104 seats in the House of Representatives, it polled only 51.4 percent of the vote--a marked decline from 80 percent in 1955 and 55.5 percent in state elections earlier this year. At the same time, the vote of the narrow, exclusively Malay Pan-Malayan Islamic party (PMIP) jumped from 4 percent to more than 21 percent; the combined vote of several Chinese-dominated parties rose from 6 percent to nearly 20 percent of the total popular vote.

The Chinese are mainly urban workers and businessmen. The educated Malays are primarily employed in the armed forces and civil service, while the masses are engaged chiefly in primitive agriculture.

These basic differences are further exacerbated by the Malays' resentment of the wealth of the Chinese and their economic domination of the country. For their part, the Chinese resent the traditional special privileges of the Malays in government employment and landownership as well as Malay efforts, especially in the schools, to "Malayanize" the Chinese population.

**The Alliance**

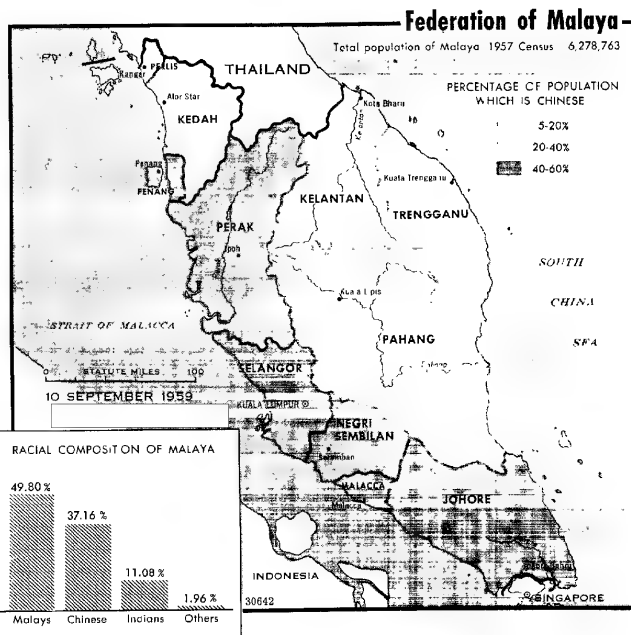
The Alliance coalition is dominated by the United Malay National Organization (UMNO), which, under the Alliance banner, elected 51 Malays to the House of Representatives. The junior partner is the faction-ridden Malayan Chinese Association (MCA), which elected 19. The third component, the Malayan Indian Congress (MIC), is a politically insignificant group that elected three

House members mainly because of Alliance prestige.

While the Alliance remains the only party in Malaya with a relatively effective nationwide organization, its strength is being eroded by the growing challenge from the opposition parties and by dissension both within and between its racial components. Its dilemma is to achieve compromises which will hold the multiracial party together without detracting from its appeal to either one of the fundamentally antagonistic racial groups from which it must draw its support.

**The Communal Problem**

Virtually all political issues in Malaya arise from or are affected by the racial complexion of the country. Although the two major races--Chinese and Malay--lived in relative harmony for generations under British rule, there has been virtually no mixture. They lack common nationalistic feelings, language, religion, or historical background, and the livelihood of the two races is largely derived from different forms of economic activity.

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This conflict of interest reached a climax in mid-July, when a complete break between the MCA and UMNO was narrowly averted. While personal ambitions and jealousy played a part in the dispute, the racial issue was basic. The MCA demanded 40 Chinese candidates under the Alliance banner in order to forestall a two-thirds Malay majority in the House which many Chinese leaders feared would lead to unilateral discriminatory amendment of the constitution by the Malays.

The MCA also demanded the use of Chinese in school examinations as an alternate to the official Malay and English languages. Leaders of the UMNO refused to accede to the Chinese demands, which they believed would be politically disastrous for the UMNO. The latter had already been hurt by surprising PMIP gains in elections in two rural, Malay-dominated east coast states. At the time, PMIP campaigners were stressing the theme that the UMNO had already "sold out" to the Chinese.

The UMNO-MCA split has only been temporarily healed, at the cost of numerous defections from the MCA, and further serious disputes are likely to arise. It is, in fact, doubtful that effective and lasting political cooperation between racial groups in Malaya can ever be achieved. The limited cohesion the Alliance does enjoy is at least partly engendered by fear among the better informed that a breakup of the Alliance would lead to widespread racial conflict.

Prime Minister Abdul Rahman has been the key figure in holding the Alliance together. He is the only political figure in Malaya who enjoys widespread popularity among all racial groups. His leadership appears essential if any real progress is to be made toward the government's long-range goal of substituting a Malayan society for

the present heterogeneous Malay, Chinese, and Indian societies.

Opposition Parties

To date there appears to be no satisfactory substitute for the Alliance, as all opposition parties have tended to be irresponsible on racial matters. If an effective "loyal" opposition were to evolve, it would



ABDUL RAHMAN

probably come from the left and might develop around the Socialist Front, now a loose and weak coalition of the Chinese-dominated Labor party and the Malay-dominated People's party. A multiracial Socialist party in Malaya faces many obstacles, however, the biggest being that, in general, a poor Malay feels he has much more in common with a rich Malay than he does with a poor Chinese. Similarly the Chinese feel closer to fellow members of their own nationality than to their Malay economic counterparts.

Economic Development

If Malaya is eventually to solve its communal problems, the relatively good economic conditions and the government's development programs will play an important role. A large, well-conceived rubber-replanting program begun in 1953 will result in a major expansion of rubber production beginning next year as the new high-yield trees

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come into production. At the same time, the government is pressing forward with other development programs and is optimistic about its schemes to attract foreign investments. If world economic conditions and these economic policies

permit a steady increase in Malaya's standard of living, the Rahman government will enhance its prospects for reversing the trend toward increased communal-25X1ism and for satisfying the aspirations of both Malays and Chinese.

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## AFGHANISTAN'S ECONOMIC DEVELOPMENT

Afghanistan is making steady but slow progress in modernizing its economy, although lack of trained personnel and inadequate financial resources have forced Kabul to curtail its original over-ambitious plans. The program now being carried out is generally well conceived, with major emphasis on transportation and lesser emphasis on agriculture, power, and industry. When the projects now scheduled or under way are completed, Afghanistan will have a more balanced economy, and its major economic handicap--inadequate transportation facilities--should be largely overcome. Reliance on foreign aid in financing the plan will impose a heavy burden of debt repayment on the country.

Background

Afghanistan's first attempt at economic development was conceived and executed in the 1930s by the Banke Mille, a private development bank. The bank drew up a modest program with emphasis on light industries, particularly cotton textiles. While the government was directly involved in parts of the program, its major role was to provide the bulk of the necessary foreign exchange. This program made moderate progress during the thirties, but World War II subsequently made it impossible to obtain the needed imports of capital goods.

Afghanistan emerged from World War II with relatively large foreign-exchange holdings because of the lack of

wartime imports and the good prices it had received for karakul, its principal export. Abdul Majid Zaboli--who was both head of the Banke Mille and minister of national economy--drafted a five-year economic plan in the belief that the large foreign exchange holdings could speed up development. Within a few years, however, it became evident that the plan was beyond Afghanistan's financial ability and that large-scale foreign assistance was necessary.

Even if Afghanistan had been able to secure all the necessary foreign aid it desired instead of only a small part, the success of the plan would have required the continued close cooperation of the Banke Mille and the government, a cooperation that did not last. While the Bank Mille was responsible for most of the country's economic development, it had made very large profits and had acquired a near-monopolistic control over important parts of the economy. Thus it became a target for government attacks. Abdul Majid Zaboli lost his post as minister of national economy in 1951, and relations between the bank and the government deteriorated. Since most Afghans possessing business or technical abilities were directly or indirectly associated with the bank, economic development, except for a few projects, made little progress.

Daud's Regime

When Prince Daud became prime minister in 1953, he was determined to speed up the

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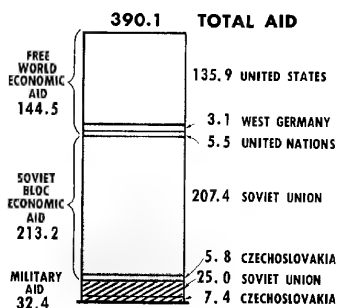
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**FOREIGN AID TO AFGHANISTAN (MILLION DOLLARS)****ECONOMIC AID**

	1951	1952	1953	1954	1955	1956	1957	1958	1959
UNITED STATES	21.0	0.3	2.0	20.9	2.0	18.1	20.5	33.9	17.2
WEST GERMANY				3.1*					
UNITED NATIONS	0.2	0.6	0.4	0.4	0.2	1.5	1.1		
SOVIET UNION				3.7	2.1	100.0	15.0		86.6
CZECHOSLOVAKIA					5.0			0.8	
<b>MILITARY AID</b>									
SOVIET UNION						25.0			
CZECHOSLOVAKIA							7.4		
<b>TOTAL</b>	<b>21.2</b>	<b>0.9</b>	<b>2.4</b>	<b>28.1</b>	<b>9.3</b>	<b>144.6</b>	<b>44.0</b>	<b>35.8</b>	<b>103.8</b>

\* EXACT YEAR UNKNOWN; APPROXIMATELY 1954



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economic development of the country. Both Daud and his brother Prince Naim--the deputy prime minister and foreign minister--were convinced that their people would become increasingly impatient over the lack of economic development in Afghanistan in view of the progress being made in neighboring countries. They believed that if the government did not bring about at least limited progress, the royal family would eventually be overthrown.

The first basic problem Daud had to resolve in order to speed economic development was the question of the government's relationship to the Banke Mille. Daud could either return to the earlier reliance on the bank as the moving force for the country's development or take for the government the role the bank had played. Daud chose the latter course, steadily placing increased controls on the private sector of the economy, particularly the Banke Mille.

The second problem Daud faced was that of securing large-scale foreign aid. Whereas in the past Afghanistan had attempted to keep foreign powers out of the country to the extent possible, Daud now sought to induce them to play a role in Afghan affairs by sponsoring and financing economic development projects. He hoped that

both the West and the Soviet bloc would aid Afghanistan, thereby enabling the country to continue its policy of neutrality in a new and more profitable form.

Afghanistan had secured a \$21,000,000 loan from the United States Export-Import Bank in 1951 for development of the Helmand Valley. In 1954 Afghanistan accepted Soviet and Czech offers of \$10,800,000 in aid to construct a bakery, cement factory, and fruit cannery, pave roads in Kabul, and undertake several smaller projects.

**Five-Year Plan**

In 1954 the government also began to draft its own five-year plan, but little effort was devoted to the task until the announcement of the \$100,000,000 Soviet loan in December 1955. This announcement, made during the visit of Khrushchev and Bulganin, resulted in a flurry of activity, and a Five-Year Plan (1956-61) was prepared for use in discussion with the Soviet economic mission which visited Kabul in March 1956 to allocate the loan to specific projects.

Total cost of the plan was estimated at approximately \$325,000,000 exclusive of debt repayments on past loans for economic development. Total foreign exchange requirements of the plan were about \$180,000,000,

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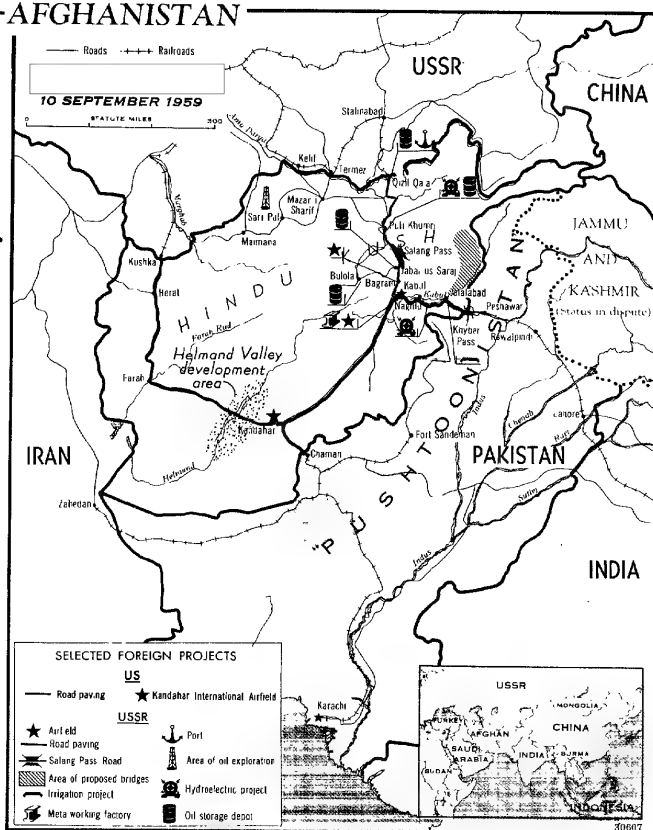
of which about \$165,000,000 was to come from foreign aid. Agriculture was to absorb 46 percent of the government's direct expenditures, transportation and communications 8 percent, social services 13 percent, and mining and miscellaneous 8 percent.

Although Afghanistan has received more foreign aid than originally called for, it is clear it cannot complete the plan by 1961. The major problem is the shortage of Afghan administrative and technical personnel. This has led the government to attempt to reach a modus vivendi with both the Banque Mille and the private sector during the past 18 months, although so far this has meant merely a reduction of hostility rather than real cooperation. In addition, the United States has not implemented its projects as rapidly as Kabul expected, and Afghan-Soviet disagreements over the cost of certain projects have delayed their construction. Although the \$100,000,000 Soviet loan was extended over three years ago, only about three fourths of it has been obligated for specific projects.

Another important factor behind the delays has been the inability of the Afghan Government to raise the necessary local currency for the plan. While this is a major problem facing all underdeveloped countries, it is particularly acute in Afghanistan, where the taxation and banking systems are rudimentary. The government increased some

taxes in 1956, but by late 1957 it was apparent that this move would not result in adequate revenues. There was a reliance on deficit financing and a substantial credit expansion between 1954 and 1957, which resulted in substantial inflation and pressure on the balance of payments.

Kabul apparently concluded that it could not safely finance



the local currency costs of the plan in this manner, and a more conservative financial course was adopted late in 1956. This reduced inflationary pressures and was the major factor behind an increase of gold and foreign exchange reserves from \$54,421,000 in March 1955 to \$67,819,000 in March 1958. Since then the reserves have been maintained at about the 1958 level.

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When it became apparent that the plan could not be carried out on schedule, a number of projects--chiefly for irrigation--were postponed. This decision, coupled with the recent acceptance of a Soviet offer to improve the road between Herat and Kandahar, placed top priority on transportation, with agriculture receiving reduced emphasis. Despite these delays in implementing the plan, local currency expenditures by Kabul for economic development in 1957-58 were as much as 25 percent over 1956-57.

Progress to Date

The economy has been strengthened in recent years, but major improvements are still in the future. New port facilities have been completed on the Amu Darya. Both the United States and the USSR have started construction of an improved road system. Ariana Airline has been improved, and the new Kandahar international airport will soon be open. The country's largest power plant, a cement plant, and the Jungalot industrial complex in Kabul are in operation. The Helmand Valley project has made only limited progress, however, and most agricultural progress has taken place north of the Hindu Kush mountain ranges.

Production of food grains appears to have increased substantially between 1948-52 and 1955-56, although poor weather has hampered production in recent years. Cotton production more than doubled between 1948-52 and 1955-56, and the output of products such as cotton textiles, matches, and soap and of electric power has increased significantly. While construction of the Gulbahar textile mill has fallen behind schedule, this project when completed within the next few years should

at least triple Afghanistan's output of cotton textiles.

A major failure, however, has been Kabul's inability to expand coal production more rapidly. Despite an increase from about 5,000 tons in 1949-50 to over 25,000 tons in 1956-57, production will have to be increased more rapidly than now appears likely if adequate fuel is to be available for the expanded requirements of the new industrial projects now under construction.

Outlook for Future Progress

Recognizing the necessity for reducing its short-run ambitions, Kabul has nevertheless been working on several major reforms which should result in increased economic growth in the future. The government is introducing a new budgetary and accounting system which should greatly improve administrative practice and provide much-improved instruments for carrying out economic policies. In addition, a high-level committee has been appointed to recommend a comprehensive reform of the taxation system. Such reform should result in substantially increased government revenue. While some of this increased revenue is likely to be used for nondevelopment and military expenditures--particularly if Kabul continues to expand its armed forces--there should be more funds available for economic development as well.

When the projects remaining in the plan are completed, Afghanistan will have a much better balanced economy. Agriculture and industry are likely to make modest progress, the education system will be improved, and--most important of all--for the first time there will be an adequate road and air transportation system. There

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should also be a modest rise in the standard of living, particularly of the urban population.

**Foreign Economic Relations**

Afghanistan has received at least \$357,700,000 in foreign economic aid since 1951, of which about \$300,000,000 has been extended for use during the five-year-plan period. Afghan leaders initially were inclined to accept any loans offered, but by late 1957 after having accepted \$213,085,000 in loans--including \$32,391,000 for arms from Czechoslovakia and the USSR--they became concerned over their repayment ability and announced a policy of accepting no new foreign loans. Since then the additional foreign aid Afghanistan has received from the United States and the USSR has all been in the form of grants.

Afghan annual repayment of foreign loans amounts to \$7,000,000-\$9,000,000 at present and will reach a peak of about \$13,000,000 in 1964, after which it will decline to about \$9,000,000 annually. These obligations are a heavy burden on a country whose total exports are about \$50,000,000 annually, and its ability to meet its obligations depends on the extent to which the development program enables Kabul to increase exports or decrease imports.

**Foreign Trade**

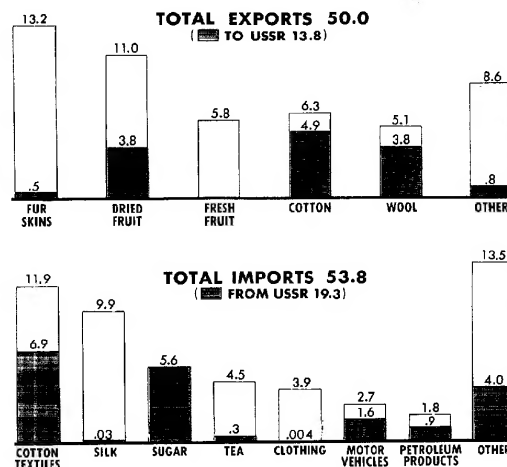
While the inadequacy of trade statistics prevents any precise analysis of the country's foreign trade, it is possible to discern its broad trends. Traditionally, Afghanistan exported karakul to the West--chiefly the

United States--in return for manufactured goods, and exported cotton and fruits to India in return for cotton textiles and tea.

During recent years, however, there has been a major reorientation in the direction of Afghan trade. In part this resulted from Kabul's difficulty in retaining its traditional markets for certain commodities, particularly in India and Pakistan, but the Soviet drive to increase its economic relations with Afghanistan through the offer of especially attractive terms has also been an important factor. Afghan exports to the USSR increased from 17 percent of total exports in 1951-52 to 28 percent in 1956-57, and Afghan imports from the USSR rose from 16 to 36 percent of total imports during the same period. While no detailed figures are available after 1956-57, there are indications that about 40 percent of Afghanistan's total foreign trade now is with the USSR, and 5 percent is with other bloc countries, chiefly Czechoslovakia.

**AFGHANISTAN: IMPORTS & EXPORTS, 1956-1957**

(MILLIONS OF DOLLARS CONVERTED AT RATE OF 30 AFGHANIS TO \$1)

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Afghanistan's foreign trade has also increased sharply in recent years. Total exports rose by over 100 percent in value between 1951-52 and 1956-57, and during the same period imports grew by over 150 percent, largely because of Kabul's ability to finance the plan by foreign aid.

The completion of the presently scheduled development projects--probably by about 1964--should enable Afghanistan to repay its foreign debt obligations. The new road system will make possible a major expansion in the country's already large fruit exports. When the textile expansion program is completed, Kabul will be able to reduce sharply its textile imports, which now are its most expensive import. There is also a reasonable chance that the Soviet-sponsored petroleum exploration program in the northern part of the country will be commercially successful and further improve the balance of trade. In any case, Afghanistan may be able to obtain a postponement of payment obligations if it has difficulty with the present repayment schedule.

Afghanistan's heavy reliance on trade with the bloc, however, makes it vulnerable to Soviet pressure tactics. If the USSR were to halt its trade, the impact on the domestic economy would be serious. While the subsistence nature of most of the economy and Kabul's modest foreign exchange reserves would temporarily cushion the impact of Soviet pressures, economic

conditions, especially in urban areas, would probably deteriorate fairly rapidly, and the development program would have to be sharply curtailed.

The completion of the development projects--particularly the road system--would, however, make Afghanistan less vulnerable to Soviet economic pressure than at present. The US-sponsored Afghan-Pakistani transit development project would be of considerable value should Kabul try to reorient trade away from the bloc, and the new roads within the country would enable commodities to move to the Pakistani border more rapidly and more cheaply.

In addition, Afghanistan's import needs are relatively small and readily available in the West, although Kabul probably would require some additional Western aid until it found new export markets. The problem of finding Western markets for certain of the country's exports would be more difficult, but these exports, because of their small quantity, could probably be absorbed without dislocation of the present pattern of free world trade. The prices Afghanistan would receive, however, would probably be less advantageous than those paid by the USSR. While the lower prices available in Western markets would result in some loss to Afghanistan, this loss would be more than offset by the cessation of debt repayments to the USSR which probably would follow any Soviet trade embargo.

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